ACTION SUMMARY

STATE INVESTMENT COUNCIL

May 28, 2024

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MINUTES OF THE

NEW MEXICO STATE INVESTMENT COUNCIL MEETING

May 28, 2024

Santa Fe, New Mexico

1. OPENING MATTER

a. Roll call and introduction of guests: quorum present.

A regular meeting of the New Mexico State Investment Council was called to order by The Honorable Governor Michelle Lujan Grisham, Chair, on this date at 9:00 a.m. in the Governor's Cabinet Room, Santa Fe, New Mexico. Introductions were made, and a quorum was declared:

Members Present:
The Honorable Michelle Lujan Grisham, Governor
The Honorable Stephanie Garcia Richard, Land Commissioner
The Honorable Laura Montoya, State Treasurer
Mr. Wayne Propst, Secretary, Department of Finance & Administration
Mr. Kurt Sommer, Public Member
Mr. Nicolas Telles, Public Member
Mr. John Bingaman, Public Member
Ms. Kelly O'Donnell, Public Member
Mr. Allen Sánchez, Public Member

Members Excused:
Mr. Michael Messina, Public Member
Ms. Catherine Allen, Public Member

Staff Present:
Mr. Jon Clark, State Investment Office
Mr. Vince Smith, Chief Investment Officer
Mr. Brent Sharp, Chief Financial Officer
Mr. Evan Land, Chief Counsel
Mr. Charles Wollmann, Director of Communications, Legislative & Client Relations
Ms. Helen Tindel, Staff Manager, Recorder
Ms. Amy Chavez-Romero, Deputy General Counsel & Compliance Officer
Ms. Dawn Iglesias, Investment Strategist
Mr. Ryan Eustice, Investment Strategist
Mr. Mikhail Kuznetsov, Investment Strategist
Mr. Keith Sabol, Director, Real Estate and Real Assets
Mr. Chris Cassidy, Director, Private Equity and Venture Capital
Mr. Juan Trevizo, Analyst, Real Estate and Real Assets
Mr. Dave Jackson, Network Administrator
Mr. Chris Rodriguez, Network Administrator

Guests Present:
Ms. Marcia Beard, RVK
Mr. Matthias Bauer, RVK
Mr. Richard Pugmire, Mercer
Ms. Amy Ridge, Mercer

Mr. Douglass Miller, Ardian
Mr. Juan Angoitia, Ardian
Mr. Kevin Genieser, Antin
Mr. Steve Kennedy, Antin
Ms. Ashley Johansen, Monomoy
Mr. Jamie Forsyth, Monomoy
Ms. Alexander Harstrick, J2 Ventures
Mr. Jon Bronson, J2 Ventures

b. Approval of agenda

At about 0:55 in the meeting recording, a motion was made to approve the agenda. The motion was passed unanimously.

c. Approval of minutes:

At about 1:24 in the meeting recording, Mr. Sánchez made a motion to approve the meeting minutes for April 23, 2024; it was seconded by Mr. Bingaman. The motion passed 9-0 with Governor Michelle Lujan Grisham, Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

2. INVESTMENT ACTIVITY & PERFORMANCE, CAPITAL MARKETS UPDATE

a. SIO Briefing (Jon Clark)

At about 1:51 in the meeting recording, State Investment Officer Jon Clark presented the Council with a brief Portfolio update. He noted current total assets under management are close to $53.8 billion. He discussed the upcoming tentative Council Retreat. Mr. Clark reported to the Council that he recently attended an entrepreneurial ecosystem event, where he interacted with various organizations and individuals who expressed interest in working with the SIC to build this ecosystem and the New Mexico economy. Mr. Clark announced that there will be a Governance Committee meeting on Wednesday, June 5, 2024.

b. CIO Briefing (Vince Smith)

At about 5:53 in the meeting recording, Mr. Smith provided the Council with his Chief Investment Officer briefing. He discussed the current economic environment, and informed the Council that the economy normally does well in election years and that was proving to be true five months into this year, with a strong labor participation and continued wage growth. Governor Michelle Lujan Grisham interjected that New Mexico is leading the nation in wage growth or had been in recent months. Mr. Smith commented that all is not perfect with the economy however and discussed a study on inflation around the world over the last 50 years by Strategis. The study found that inflation historically comes in two waves, so the investment team is keeping a close eye on these metrics as well as other risks that are present in the market. He said that they are continuing to put new investment dollars to work from all of the strong fund inflows we have experienced, while risk assets are growing at a good rate, and the Asset Class Directors are working to catch up on investment pacing models this year. He indicated his team is on track to present the Annual Investment Plan to the Council for their review next month. Mr. Smith discussed stock market returns in this market environment relative to cash, which is still returning more than 5%.

c. Performance Report: (RVK)

At about 11:10 in the meeting recording, Matthias Bauer from RVK presented the Executive Summary for the quarter ending in March. He made a few brief comments on the Capital Market environment as it relates to the underlying asset classes. He pointed out the Market Performance Table and trailing returns for all of the major asset classes. He said these are reasonably positive numbers, especially across the equity markets. Mr. Bauer said he expects the uncertainty around inflation to work its way across the markets. He noted the Federal Reserve has not yet cut interest rates in 2024, despite broad expectations of about a half dozen rate cuts this year. Overall, he said, the SIC is in good shape, positioned well and diversified to take advantage of opportunities as they may arise. Marcia Beard, from RVK, continued with the review of the Executive Summary. She reviewed the SIC's asset allocation, specifically the Land Grant and Severance Tax Permanent Funds performance compared to their respective interim and long-term targets. Ms. Beard then reviewed performance, based on policy objectives. The Land Grant Permanent Fund has met the policy objective in the short term and

long term when looking at net and gross returns compared to the benchmark. She said the Severance Tax Permanent Fund was underperforming in the five-year policy expectation but in the shorter term it was outperforming its benchmark. Ms. Beard went on to review the SIC's various asset classes' performance compared to their benchmarks, as well as noting allocation weights relative to long-term targets. She also provided return attribution analysis. For the LGPF, she highlighted long-term performance ranking above-median relative to peers, while noting some underperformance in the short term due to strong returns in public equity markets, while the SIC has a more diversified and defensive portfolio. Ms. Beard showed a chart illustrating this through the portfolio's Sharpe Ratio, which remains top quartile. At the end of the presentation, Treasurer Montoya asked Ms. Beard about the previous minimum and maximum limits on the public market interim asset allocation for the Land Grant Permanent Fund, which have been suspended in the short term. Ms. Beard indicated she could email that information to the Treasurer, and additional discussion ensued. Treasurer Montoya asked Ms. Beard for a status update on RVK's research into Diversity, Equity and Inclusion within the SIC's portfolio. Ms. Beard informed the Treasurer that they have collected this information and were working on compiling a report. Mr. Clark informed the Treasurer that his goal was to present the report at the June meeting.

3. <u>INVESTMENT MATTERS: PORTFOLIO RECCOMENDATIONS & INFORMATIONAL ITEMS</u>

a. <u>Investment Committee Report (</u>John Bingaman)

At about 34:17 in the meeting recording, Mr. Bingaman informed the Council regarding the Investment Committee had a meeting last week. Investment Chairman Bingaman indicated that the committee was recommending to the Council that they approve all of the agenda items it reviewed.

b. <u>Vote: Strategy: Asset Allocation- Higher Education Trust Fund</u> (Smith, RVK)

At about 34:50 in the meeting recording, Mr. Smith informed the Council about the first report in the book outlining the nature and intent of the new fund, including the statutory language that created it. He indicated that based those factors, the Higher Education Trust Fund (HETF) would be structured similarly to the Early Childhood Education and Trust Fund, with about 50% allocated to a combination of public and private equity. Mr. Bauer continued the discussion by saying that RVK has worked closely with SIC staff to review the bills, assess the key points around the fund's goals, spending policy and expected inflows, and to best identify where the fund should fall withing the risk return spectrum of the SIC portfolio. Member Bingaman made the following motion, which was seconded by both Treasurer Montoya and Member Sommer.

> **Based on the recommendations of the Council Investment Committee, General Consultant RVK and SIC Staff,** I move that the State Investment Council authorize the Asset Allocation Plan for the new Higher Education Trust Fund, as memorialized and discussed by the Council at today's meeting.

The motion passed 9-0 on a roll-call vote with Governor Michelle Lujan Grisham, Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

c. <u>Strategy: Risk Report</u> (Smith, Mikhail Kuznetsov)

At about 41:50 in the meeting recording, Mr. Kuznetsov presented the Land Grant Permanent Fund Risk Report for March 31, 2024, to the Council. He reviewed the portfolio and its risks at a high level and noted there were no surprises. The fund was overweight in the financials sector; specifically, it was over allocated to Bank of America and Morgan Stanley, however those exposures were within the reasonable range for concentration. The portfolio continues to display a high level of diversification and is aggressively allocated compared to its benchmark. Mr. Kuznetsov continued his presentation by saying the portfolio risk has decreased over the last quarter by 1.4%. and went into detail about the contributing factors to the reduction. He explained how the Strategy Team uses models and builds out history to identify market trends. One model considers how much a 1% increase in certain strategic allocation weights would increase total portfolio level risk. Mr. Kuznetsov explained how the team performs stress tests on the current asset allocation by analyzing past market events in history and assessing those scenarios' impact if applied today.

d. <u>Intergenerational Equity Analysis</u> (Smith, RVK)

At about 53:40 in the meeting recording, Chief Investment Officer Vince Smith explained that the Intergenerational Equity Analysis started in 2014 to evaluate the fund's performance relative to the policy expectations and the reason why the funds exist. He said that the report has evolved over time Mr. Bauer explained RVK's model creates a holistic picture of where the fund is today and where it is going based on the following inputs: spending policy, inflows and investment returns after inflation, and how those factors interact long-term. This helps establish the fiscal health of the funds, and where they might be headed over time, as well as whether the fund impact can be applied reasonably across generations. Mr. Bauer provided an overview for specific funds in the report, which has been expanded to assess multiple SIC-managed funds and their status. SIC Investment Strategist Dawn Iglesias followed up with some additional observations, explaining the Intergeneration Equity score is the probability of maintaining flat economic value. The score itself doesn't explain anything without context. It is paramount to understand the purpose of the funds and the score alone is only a tool to analyze the trajectory of the funds. Member Telles started a discussion about generational value compared to net asset value and distribution rates. He brought up the importance of looking at parity within generations. Treasurer Montoya said that she thought that the analysis provided a good snapshot for the Council to see if the funds were aligning with the goals of the legislation, and to ensure that the asset allocation was based on the goals set by the legislature, and if not, as an indicator that the SIC should discuss that alignment concern with the legislature. Governor Lujan Grisham noted that despite the historic inflows we are experiencing, the legislature has to take a long-term view to responsibly balance present and future needs of the state and the role that these funds play in meeting those goals. She indicated that this report and the conversation is a helpful for policymakers in making those decisions.

e. <u>Vote: Private Equity- Monomoy Capital Partners V</u> (Chris Cassidy, Mercer)

At about 1:26:30 in the meeting recording, SIC Director of Private Equity Chris Cassidy introduced his first fund for the Council to review today, the first in the national private equity program, Monomoy, a value-oriented middle market buyout fund focusing on consumer, industrial and manufacturing businesses. Mr. Pugmire of Mercer indicated that Monomoy is a new relationship for the SIC, and then went into detail regarding the various reasons Mercer finds this investment opportunity attractive. Jamie Forsyth, partner at Monomoy, continued the presentation. Ms. Forsyth discussed her firm's overall investment thesis over the previous two decades. Monomoy focuses on manufacturing and distribution businesses that serve the industrial and consumer sectors, with an emphasis on value investing and value creation. Ms. Forsyth also discussed the firm's team, backgrounds, culture and experience. Member Bingaman made the following motion, which was seconded by Treasurer Montoya and Member Sommer.

> **Based on the recommendations of the Council Investment Committee, Private Equity Consultant Mercer, SIC Staff and general fiduciary oversight from RVK,** I move that the State Investment Council approve a commitment of up to $50 million to Monomoy Capital Partners V, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

The motion passed 9-0 with Governor Michelle Lujan Grisham, Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

f. <u>Vote: NM Private Equity- J2 Ventures Argonne Fund</u> (Cassidy, Mercer)

At about 1:37:00 in the meeting recording, Mr. Cassidy introduced J2 Ventures Argonne Fund, an early-stage venture capital firm. Mr. Cassidy explained that in searching for managers to recommend for the New Mexico program they consider the follow factors: do they invest in sectors that make sense for New Mexico and its strengths and is this manager a group that can help companies expand and grow here. Mr. Cassidy said that the size of the recommended commitment had been sized based on the likelihood it can make 2 or 3 New Mexico investments over the life of the fund. Mr. Pugmire continued the review by going into more detail about the history of J2 Ventures, how they would be able to work within the NM ecosystem and why Mercer found this opportunity attractive. J2 founders Alexander Harstrick and Jon Bronson discussed the history of the firm and some of the competitive strengths it brings to the table, including its relationships with governmental entities like U.S. National Laboratories. Mr. Bronson continued the presentation by going into more detail about their strategy in growing companies through public private partnerships. Governor Lujan Grisham apologized

that she had to leave the meeting to attend to other matters and asked Secretary Propst to chair the remainder of the meeting. Mr. Harstrick then introduced Sristy Agrawal and Wale Lawal from portfolio company Mesa Quantum. The Mesa Quantum team discussed their professional backgrounds and the company's work that brought them to Sandia Labs in New Mexico, as well as quantum sensors and their applications for both government and commercial uses. Mr. Harstrick concluded the presentation by explaining his firm's strategy and outlook. Treasurer Montoya asked questions regarding J2's performance in his first fund, and its plans to add back-office resources. Member Bingaman made the following motion which was seconded by Member Telles.

> **Based on the recommendations of the Council Investment Committee, Private Equity Consultant Mercer, SIC Staff and general fiduciary oversight of RVK,** I move that the State Investment Council approve a commitment of up to $15 million to J2 Ventures Argonne Fund, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

The motion passed 8-0 with Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

g. <u>Vote: Antin Infrastructure Fund V</u> (Keith Sabol, Mercer)

At about 1:58:45 in the meeting material, Mr. Sabol introduced new SIC Analyst Juan Trevizo, who was recently hired onto the Real Estate and Real Assets Team. Mr. Trevizo greeted the Council and gave a brief introduction. Mr. Sabol then introduced Antin, a leading European-based infrastructure manager, and provided a strategy overview and background of the fund, which is seeking net returns in the middle teens. Amy Ridge from Mercer continued the report, indicating Antin would be a new manager in the SIC's infrastructure portfolio, noting however it is a long tenured fund with Mercer, and they believe it would be a strong addition to the SIC's infrastructure portfolio. Ms. Ridge went into more detail about the manager and fund structure and strategy. Managing Partner, Kevin Genieser presented the Council with a summary background of Antin, their team structure, history and track record. Mr. Genieser discussed the diversity of his team and its value-add strategy, and the basic framework which guide their investments. He also discussed an existing clean energy investment the firm has in McKinley County in New Mexico. Treasurer Montoya expressed her appreciation for Antin's relationship with SIC and her excitement for the fund based on performance, cost, investment in New Mexico and diversity within the Antin team. Member Bingaman made the following mothing with was seconded by Treasurer Montoya.

> **Based on the recommendations of the Council Investment Committee, Real Assets Consultant Mercer, SIC Staff and general fiduciary oversight of RVK,** I move that the State Investment Council approve a commitment of up to €220 million to Antin Infrastructure Fund V, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork.

The motion passed 8-0 with Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

h. <u>Vote: Ardian Infrastructure Fund VI</u> (Sabol, Mercer)

At about 2:12:30 in the meeting recording, Mr. Sabol began his presentation by informing the Council that the recommended commitment would be the beginning of a new relationship between Ardian and SIC. Mr. Sabol indicated the fund is an experienced manager dating back to the 1990s and is known for its strong commitment to sustainable investments targeting large-cap diversified infrastructure strategies including digital, transportation and energy. He indicated its value-add/core-plus strategy is expected to produce returns in the low-to-mid-teens and is built for resiliency. Ms. Ridge continued the presentation by explaining why Mercer believes Ardian would be an attractive addition to the SIC's infrastructure portfolio. They focus on energy, primarily renewables, transportation and digital infrastructure, which will help diversify SIC's existing infrastructure portfolio. The strategy was initially launched in 2005. Ardian is primarily focused on Europe with a secondary focus in North America, the investment team is split between both regions. This fund plans to make 8-12 investments focused on purchasing existing assets which are already cash flowing and would primarily focus on building value through operational improvements, different growth initiatives and add-on acquisitions. Ardin is focused on transforming assets into energy transition leaders. Ms. Ridge passed off the presentation to the Ardian Team: Douglass Miller, Managing Director and Juan Angoitia, Senior Managing Director. They went into more detail about Infrastructure Fund

VI and its strategies. Treasurer Montoya asked for clarification about the firm's greenfield strategies, and Mr. Angoitia explained. Investment Committee Chairman Bingaman made the following motion, which was seconded by Member Sommer.

> **Based on the recommendations of the Council Investment Committee, Real Assets Consultant Mercer, SIC Staff and general fiduciary oversight of RVK,** I move that the State Investment Council approve a commitment of up to $250 million to Ardian Infrastructure Fund VI, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork.

The motion passed 8-0 with Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

Secretary Propst thanked Mr. Bingaman, the Investment Committee and Staff for the hard work that went into each recommendation. He also thanked the consultants for their efforts and for being in front of the Council for these presentations each month.

4. FINANCE MATTERS: INFORMATIONAL REPORT REQUIRING DISCUSSION/VOTE

a. CFO Report (Brent Shipp)

At about 2:31:25 in the meeting recording, Chief Financial Officer Brent Shipp presented the Council with the updated fiscal year 2024 Budget Summary which was current as of April 30th. Mr. Shipp addressed questions from the previous Investment Committee meeting regarding SIC governmental clients, the investments for which are also reported in the monthly Investment Holdings Report along with permanent fund assets. Mr. Shipp highlighted client fund structure, which allows the clients to invest in unitized pools parallel to the other funds managed by the Council.

b. **Vote: External Audit Services RFP (Shipp)**

At about 2:34:44 in the meeting recording, Mr. Shipp informed the Council that an RFP for External Audit Services was issued in April and received responses in early May. The responses were graded by Mr. Shipp and two members of the Council and Audit Committee. Moss Adams, LLP received the most points. Member Telles reported that the Audit Committee recommended the Council award Moss Adams the contract. Treasurer Montoya asked how many entities were in the RFP process and the costs involved. Mr. Shipp answered her question by letting the Council know that a local firm, regional local firm and Moss Adams responded to the RFP. Regarding costs, Mr. Shipp indicated he believed both current and next year's fees would be around $130 thousand, and he then added details around the procurement process. Treasurer Montoya continued the discussion by pointing out the unique auditing needs of the SIC, the aspects of which are often shared by pension funds and the Treasurer's Office. She noted that there are only a few firms in the nation that are able to provide the level of service needed. Mr. Shipp agreed, especially in the area of alternative assets. Mr. Telles suggested that when the next audit RFP of this nature occurs, involving a longer, full-cycle term, that the Committee should revisit the scope of the evaluation criteria to ensure the firm is qualified in that area. Commissioner Garcia Richard expressed her appreciation for Mr. Shipp, Audit Chair Telles and the Audit Committee. DFA Secretary Propst made the following motion which was seconded by Member Telles.

> **Based on the recommendations of the Council Audit Committee and SIC Staff,** I move that the State Investment Council authorize a contract with Moss Adams, LLP to perform the audit of the State Investment Council's annual financial statements for the fiscal year ended June 30, 2024, and complete the agreed-upon-procedure reports for the four subsequent quarters, as discussed, reviewed and memorialized by the Council today. The term of the contract shall be one year, with the option to extend for one successive one-year term.

The motion passed 8-0 with Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

5. **GOVERNANCE MATTERS: INFORMATIONAL REPORTS REQUIRING DISCUSSION/VOTE**

   a. **Vote: Open Meetings Act Resolution (Amy Chavez-Romero)**

At about 2:45:15 in the meeting recording, Deputy General Counsel Amy Chavez-Romero introduced the proposed Open Meetings Resolution. She explained that it would renew the Open Meetings Provision previously adopted by the SIC which included procedures for the conduct of public meetings, and its advisory committees. It was presented to the Council to meet a requirement for annual approval of procedures for open meetings. Treasurer Montoya and Mr. Chavez-Romero discussed the history and nature of the resolution. Treasurer Montoya requested to amend the resolution. Deputy Counsel Chavez-Romero suggested that the language include "the recording of virtual meetings of the State Investment Council will be maintained by the State Investment Office." Treasurer Montoya made a motion to approve the resolution as amended. Member Sánchez seconded the motion.

The motion passed 8-0 with Commissioner Stephanie Garcia Richard, Treasurer Laura Montoya, DFA Secretary Wayne Propst, Member Telles, Member Bingaman, Member O'Donnell, Member Sánchez and Member Sommer voting in the affirmative.

6. **CLOSING MATTERS**

   a. **Old or new business:**

None.

   b. **Next SIC meeting date: Tuesday, June 25, 9:00 a.m., Santa Fe, NM.**

7. **PUBLIC COMMENT PERIOD**

   a. **At about 2:53:26 in the meeting recording,** Kenneth Segura Knoll addressed the Council during the public comment portion of the meeting.

8. **ADJOURNMENT**

   a. The meeting ended at 12:03 p.m.